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PAYING FOR PERFORMANCE AND POSITION

Dilemmas in Salary Compression and Merit Pay

James W. Steele

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About the Author

James W. Steele is the president of Personnel Systems and Development Company, a management consulting firm that specializes in areas related to human resources management, including compensation administration and performance appraisal. He is also an associate professor of management at Drexel University's Department of Management and Organizational Sciences. Prior to his present position, he was a group vice-president of administration for a *Fortune* 300 company.

Steele is a frequent lecturer on management and human resources topics for business and professional organizations throughout the United States. He holds the copyright for a performance review and personnel development system, and he has authored articles for such publications as the *Journal of Applied Psychology* and the *Advanced Management Journal*.

Steele received his bachelor's degree in psychology and economics in 1956 and his master's degree in industrial psychology in 1958. He is an associate of the American Psychological Association.

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INTRODUCTION

Most managers have come to expect periodic merit increases as the just rewards for jobs well done—for contributing successfully to organizational objectives. And virtually all salary administration policies are founded on the concept that meritorious performance should be rewarded and that higher levels of compensation should go to those who apply specialized skills or supervise the work of others.

But there's a problem. For almost a decade, many managers have been watching the compensation gap between themselves and their subordinates become narrower and narrower. And in extreme cases, when the hourly worker's overtime pay is added on, the worker receives a larger paycheck than the supervisor. At the same time, merit increases have simply not kept up with inflation. Since 1973, the average manager has "lost" more than 10 percent in buying power.[1] Indeed, the combined problems of salary compression and the inability to properly reward meritorious performance have created one of the most difficult periods in the area of compensation administration that many organizations have had to deal with.

This survey was prompted by the need for a fuller understanding of the causes, dimensions, and possible solutions to these compensation problems. Some information leading to a greater understanding already exists. The Conference Board recently published a survey that investigated merit programs and general increases under inflationary conditions, and figures on average merit increases are available from a number of sources. But more information is clearly needed, not on any single factor but on the complex relationships among a number of elements: merit increase trends, cost-of-living increases in both the hourly and salaried employee groups, trends in union contract settlements, wage increases for nonunionized employees, and year-to-year increases in offers to college graduates. These elements interact to play significant roles in the evolution of company policies regarding merit increases and earnings relationships. Finally, the survey attempted to determine what has been done and what else can be done to correct or avoid salary compression and the related problems associated with merit pay.

Sixty-seven percent of the 613 organizations responding to the survey indicated that they were struggling with compression. And the incidence of compression is greater than 67 percent in certain industries, publishing/communications, for example, transportation, and public utilities. Of the two problems, however, the inability of merit increases to keep pace with inflation is the more sensitive issue and, according to the respondents, more likely to disrupt employee morale and increase turnover.

[1] Or perceive that they have, CPI data problems notwithstanding.

At the same time, analysis of the survey data indicates that the end of a decade of increasing compression may be in sight. In some sectors of the workforce, the previously narrowing gap between supervisor and subordinate seems to have stabilized. It may be widening. Salary differentials between supervisor and subordinate in high demand classifications (engineering and data processing) are still cause for continued concern, however.

GAINING PERSPECTIVE

Our society has always sanctioned and encouraged the notions of pay for performance and higher compensation for higher levels of skill, responsibility, and accomplishment. Egalitarianism, however appealing it may be in theory, is for most of us difficult to accept in practice. Yet in some industrialized societies in Europe and the Far East, the trend toward egalitarianism is notable, and disturbing to those who traditionally view position, effort, and seniority as the major justifications for pay differentials.

In the late eighteenth century, Adam Smith, in *Wealth of Nations,* set forth several important conditions for evaluating labor/wage differences. Over the years, these concepts have evolved into rationales that justify pay differentials. In accordance with the law of supply and demand, for example, wages and salaries tend to rise when the labor supply is scarce. Today, this notion is nowhere better demonstrated than in the case of data processing and engineering graduates entering the labor market for the first time.

But our current salary compression problems did not evolve as the result of any one single factor, such as escalating salaries in high-demand job classifications. Nor are the problems an overnight phenomenon. Rather, they developed slowly during the past decade, the cumulative result of a number of complex factors. The problems intensified dramatically in 1973, when the consumer price index started to rise faster than average merit increases. Take a look at Figure 1.

At the same time, a new cry emanated from executive suites all over the country: "This organization has never had a policy that guarantees employees earnings increases equal to or greater than the annual increases in the consumer price index." Translation: "We never promised you a rose garden."

However, the fact is that a rose garden did exist in many an organization for 20 years prior to 1973—or at least as long as the American Management Associations has been compiling data on annual merit increases. Not once in the period between 1953 and 1973 did the consumer price index equal or surpass the average merit increases granted by organizations surveyed by the AMA Compensation Service. Then, in 1973 came the first of a number of dramatic escalations in the CPI, as Figure 1 shows.

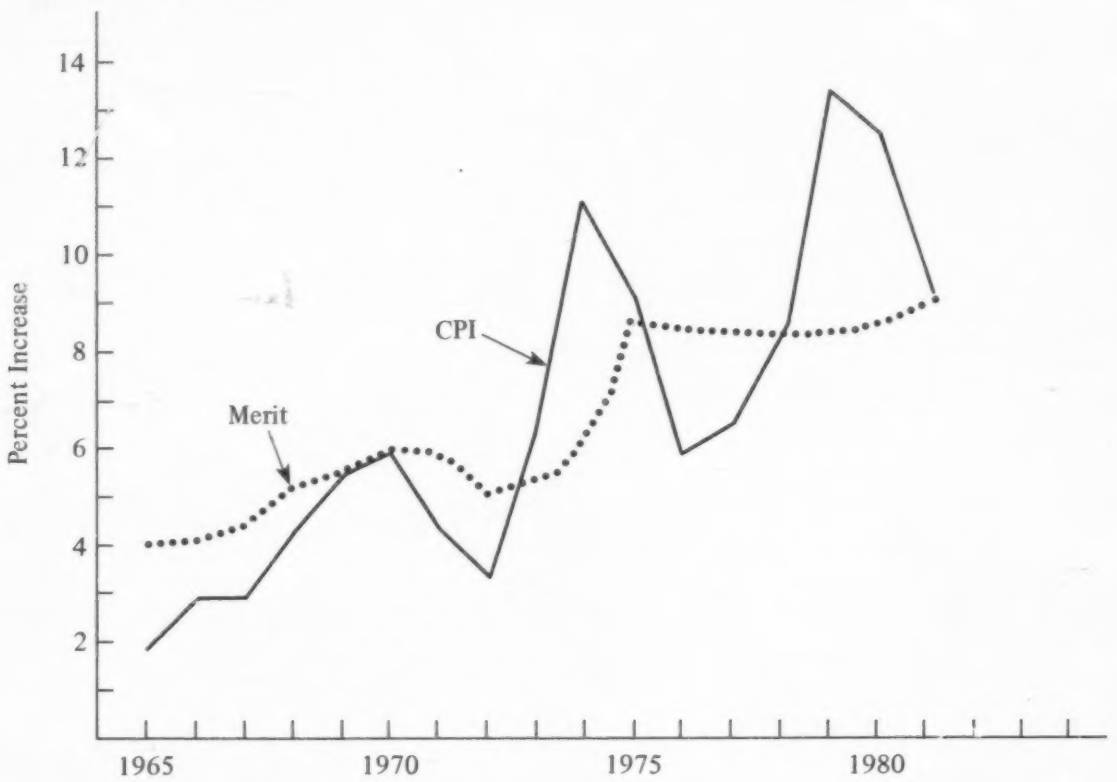
It is important to mention here the controversy surrounding the accuracy of the CPI. Many argue (with substantial validity) that the CPI is misleading in that it includes some items—mortgage costs, for example—that tend to exaggerate the figure. But regardless of whether the CPI is misleading, its monthly press releases create perceptions and attitudes that are very real. The CPI is used here simply because no better, widely accepted index is available.

The data on cost-of-living increases—and on the inability of merit budgets to keep pace—help explain the conditions that are at the root of our current compression problems. Two major relationships are worth noting. First, in certain salaried job classifications (again, use engineering and data processing as examples), year-to-year increases in starting salaries closely paralleled rises in cost of living. Second, in the hourly ranks, many of the previously negotiated cost-of-living adjustments in labor agreements had remained relatively benign for many years. Then, with the increase in the CPI, unions began

to press for activation of these clauses. Supervisors, whose pay increases were regulated by a more conservative merit award program, saw the earnings of their hourly paid subordinates approach, equal, and (in some cases) surpass their own earnings.

I recall the lament of one senior officer of a midwestern manufacturing organization, whose company some years before decided to grant salaried employees the same cost-of-living adjustment provision as was granted to the hourly workers. All was fine until the mid-1970s, when the cost-of-living adjustment nearly eradicated any notion of a substantial merit recognition. Then in 1979 the CPI rose 13.5 percent (hopefully its highest rate of increase) and all employees in the organization received exactly that adjustment. Not bad by any standard. However, the employees were restless. The hapless vice-president was continually confronted by disgruntled employees demanding to

Figure 1. CPI changes and merit increases.



Cumulative differences, merit versus CPI for the years:

1965 to present -2.5%
1973 to present -10.5%
1978 to present -9.75

Sources: (a) U. S. Statistical Abstract. Department of Commerce, Bureau of Labor Statistics, 1980.
(b) *Middle Management Report.* Executive Compensation Service, American Management Associations, 1981.

know when they were going to receive their *merit* increases. The story underscores the need to view salary compression and merit administration problems in the context of the complex set of relationships that is the focus of this study. More specifically, the questionnaire was designed to collect data that would test three major hypotheses:

1. Compression is the product of internal merit programs not keeping pace with external supply/demand relationships.
2. The rise in cost of living has constrained merit programs and compelled some companies to grant "minimum merit increases" that are really more or less general increases. Because of these increases, organizations have less latitude in rewarding meritorious performance (and not rewarding lack of it).
3. Salary compression is most severe in the relationship between salaried supervisor and hourly subordinate, with wages for hourly employees approaching (and sometimes surpassing) the earnings of their supervisors. This condition stems, in part, from the combination of hourly labor contract settlements, overtime pay practices, and COLA clauses moving out of step with the more conservative merit programs.

THE SURVEY DESIGN

Approximately 5,000 questionnaires were mailed to persons selected from the subscription list of *Compensation Review* and the membership list of the American Compensation Association. A total of 613 organizations responded. This 12.3 percent return gives us a reliability slightly greater that $\pm$ 3 percent at the 0.5 level of confidence.

Although these respondents may not be fully representative of American organizations, they do provide data that can be used confidently by others. The questionnaire demanded quite a bit of thought and time from the respondents: They had to deal with variables such as COLA agreements, histories of merit increases, salary offers to college graduates, and corporate policies. No one could have completed the questionnaire without having access to detailed company records for the past four years. The amount of detail that the respondents were able to provide lends credibility to the study.

The questionnaire was divided into five distinct sections:

- Salary and compensation administration data
- Labor organization data
- Pay practices for supervisors
- Severity of the salary compression problem
- Remedies or solutions currently being considered

The first three sections were designed to define and detail the respondents' compensation policies and pinpoint areas in which compression was a problem.

The final two sections were actually miniature opinion surveys. To describe the severity of the compression problem in their organization, respondents rated its impact on such matters as morale, productivity, and turnover. The section on remedies and solutions presented respondents with a checklist of 16 possible responses and asked them to rate each item in terms of (1) their personal support and (2) the likelihood that their organization would adopt that course of action.

A simple question was inserted at the beginning of Section 3: "Do you feel your company has a compression problem? Yes or no." The question came immediately after the respondent had provided comprehensive statistical information on a variety of salary issues—a time when he or she would be best prepared to provide an informed opinion. The statistical and analytical importance of this question will be discussed in a moment.

Table 1 shows the basic characteristics of the 613 organizations represented. Indeed, the respondents display a broad representation of organizations in terms of size, employment, industry classification, age, and location of headquarters. Over all, the respondents represent an estimated total of 2.6 million employees and $250 billion in annual expenditures or sales volume.

Table 1. Survey sample characteristics, 613 organizations.*

	Number	*Percent*	
1. Organization size:			
Under $15 million	59	9.5	
$15–49 million	82	13.4	
$50–99 million	69	11.3	
$100–499 million	179	29.2	
$500–999 million	71	11.5	
$1 billion and over	134	21.9	
2. Industry classification:			
Consumer manufacturing	97	15.8	} 45
Industrial manufacturing	179	29.2	}
Merchandising	29	4.6	
Transportation/distribution	14	2.3	
Utilities	37	6.0	
Finance/real estate/insurance	81	13.2	
Medical/health care/nonprofit	56	9.1	
Communications/publishing	15	2.4	
Government	32	5.2	
Other Miscellaneous	26	4.2	
Engineering	13	2.1	
Services	27	4.7	
3. Number of employees			
Fewer than 100	32	5.2	
100–499	75	12.2	
500–2,499	193	31.5	
2,500–4,999	96	15.7	
5,000–9,999	89	14.5	
10,000 and over	128	20.2	
4. Location of Headquarters			
Urban	308	50.2	

Table 1 (continued)

Rural		199	32.5
Section	Northeast U.S.	201	32.8
	Southeast	67	10.9
	Midwest	198	32.3
	Southwest	102	16.6
	Northwest	29	4.7
	Foreign	5	0.8
5. Age of organization			
0–5 years		11	1.8
6–20 years		88	14.4
21–40 years		114	18.6
41–60 years		108	17.6
Over 60 years		286	46.7

*Numbers will not total 613 nor 100 percent due to unanswered questions in some response categories.

Fortunately, almost all of the data were normally distributed. There was a good response from a variety of industries. Federal, state, and local governments made up more than 5 percent of the sample. Further, all sections of the United States were represented. There was, however, a disproportionate number of older companies—48 percent were 60 years old or older. And 22 percent of the total were large organizations,[2] which again was disproportionate. Once the reader takes these variations into account, the data should prove both useful and interesting.

The responses were analyzed through several cross-tabulations, and all relevant weighted averages were tested for significance via a T-test. Comparisons of the variations in merit budgets compared with union and nonunion wage settlements and similar types of data were analyzed via Pearson product moment correlation coefficients. Other data were analyzed with Spearman rank order correlation methods.

Because of the size and scope of this research, this report is confined to those data linked significantly with the salary compression problem, or those that are instructive because of their *lack* of relationship to the problem.

The first chapter provides an overall view of the extent and dimensions of the problem and a summary of the major findings. The subsequent chapters follow the structure of the questionnaire closely in order to present a more detailed analysis.

[2] $1 billion or more in sales or budget.

1

HIGHLIGHTS and CONCLUSIONS

The responses to the question "Do you feel that your company has a compression problem?" provide one key to understanding the data. Cross-tabulated against demographic data on company size, location of headquarters, and the like, these answers establish an overall view of the frequency and distribution of compression. Table 2 shows this tabulation, and an explanation of the results follows.

PROBLEM DIMENSIONS

These findings describe the problem in terms of its size and complexity:

- Four-hundred and eleven organizations (67 percent of the sample[1]) reported that they were experiencing compression in supervisor/subordinate relationships; 190 organizations (31 percent) reported no problems (2 percent did not answer this question).
- The communications/publications industry reported the greatest incidence of compression (13 out of the 15 companies). The transportation industry ranked second, with 12 out of 14 companies answering "yes" to the question on compression. Government agencies were next (25 out of 32 organizations reporting compression), followed by utilities (27 out of 37).
- Compression problems were least common in industrial manufacturing. Next in order were the merchandising and finance/real estate/insurance industries. We might explain the situation with the latter two groups by pointing out that they have low unionization and low to moderate demand for the scarce disciplines in college graduates. But the presence of industrial manufacturing at the low end makes this neat explanation untenable.
- Companies in the Southeast and Southwest reported the greatest number of compression problems; those in the Northwest and in foreign countries reported the least. The location of a company's headquarters (that is, rural or urban area) doesn't seem to influence its likelihood of having a compression problem.
- The larger the organization, the more likely that organization is to experience compression. Note, for example, that only 54 percent of those organizations with 100 to 499 employees indicated the presence of a compression problem. For those organizations with 5,000 to 9,999 employees, the incidence of compression climbs to 82 percent. Except for those organizations with more than 10,000 employees, the rank-order column in Table 2 shows a direct correlation between organizational size and frequency.

[1] This statistic may be biased. Organizations with compensation problems are probably more likely to respond to a lengthy questionnaire such as this one.

Table 2. Survey sample characteristics tabulated against reported problems with compression.*

		Organizations with Compression			*Organizations without Compression*		
	Total Number	*Number*	*Percent*	*Rank Order*	*Number*	*Percent*	*Rank Order*
1. Organization size:							
Under $15 million	59	21	39	6	34	58	1
$15–49 million	82	52	63	5	29	35	2
$50–99 million	69	47	68	4	21	30	3
$100–499 million	179	124	69	3	52	29	4
$500–999 million	71	52	73	2	17	24	5
$1 billion and over	134	100	75	1	33	24	6
2. Industry classification:							
Consumer manufacturing	97	65	67	8	31	32	4
Industrial manufacturing	179	114	64	10	63	35	1
Merchandising	29	18	62	12	10	34	2
Transportation	14	12	86	2	2	14	11
Utilities	37	27	73	4	8	22	9
Finance/real estate/insurance	81	53	65	9	27	33	3
Medical/health service	56	38	68	7	16	29	8
Communications	15	13	87	1	1	7	12
Government	32	25	78	3	7	22	9
Other Miscellaneous	26	18	69	5	8	31	5
Engineering	13	9	69	5	4	31	5
Services	27	17	63	11	8	30	7
3. Number of employees							
Fewer than 100	32	9	28	6	20	63	1
100–499	75	41	54	5	33	44	2
500–2,499	193	135	70	3	54	28	3
2,500–4,999	96	67	70	3	27	28	3
5,000–9,999	89	66	82	1	22	25	6
10,000 and over	128	93	76	2	34	27	5
Total employees**	2,620,000	1,994,150	76		625,850	24	
4. Location of Headquarters							
Urban	308	206	67	1	97	32	2
Rural	199	130	65	2	64	32	1

Table 2 (continued)

Section	Northeast U.S.	201	133	66	4	63	31	3
	Southeast	67	49	73	1	18	27	6
	Midwest	198	132	67	3	60	30	4
	Southwest	102	72	71	2	30	29	5
	Northwest	29	16	55	5	12	41	2
	Foreign	5	1	20	6	4	80	1
5. Age of organization								
0–5 years		11	5	45	5	6	55	1
6–20 years		88	52	59	4	33	38	2
21–40 years		114	72	63	3	38	33	3
41–60 years		108	74	69	2	32	30	4
Over 60 years		286	204	71	1	79	28	5
Totals		613	411	67		190	31	

*Totals often will not equal 613 organizations or 100 percent due to incomplete questionnaires.
**Estimate

- Mature organizations report a greater incidence of compression than do young ones. Again, look at the rank-order column in Table 2, under Age of Organization.

These last two findings call for some attempt at explanation. One might hypothesize that in larger organizations, management tends to be more isolated from the rank and file and therefore under less pressure to respond to the needs that develop. Second, larger organizations tend to develop complex policy systems and approval networks that are less flexible in meeting problems and handling individual situations.

A similar theory may help to explain why mature organizations are more susceptible to compression. The newer companies tend not to have the structure, formality, and procedures that frustrate remedial action when it is needed. Also, perhaps, younger organizations have simply not existed long enough for inequities to develop.

TRENDS: A PARTIAL EASING OF COMPRESSION

Compression problems are most severe in the relationship between hourly employees and their supervisors, where 20 percent of the respondents reported an earnings differential of 10 percent or less. When we compare the data for the four-year period, however, a clear trend toward the easing of compression emerges. This trend is evident in all job classifications except engineering and data processing. Here are the findings:

- In all organizations, even those that have the most stringent hourly employee cost-of-living adjustment clauses, it appears that the earnings relationship between the supervisor and hourly subordinate has stabilized. In fact, in organizations *without* compression problems it appears that the earnings differential is in fact widening. In organizations reporting compression prob-

lems, the average difference is 15.8 percent, compared with an average 19.7 percent difference in organizations without compression problems.

- Earnings differentials between recent college graduates and their direct supervisors have also stabilized in the sales/marketing, production, and business/accounting areas. The average difference in earnings between supervisor and college graduate is now 27.8 percent in organizations reporting compression problems and 33.4 percent in organizations reporting no problems.
- The problem may be getting worse in the engineering and data processing areas. Here the differential has narrowed by an average of slightly more than 4 percent in the past four years.
- Our respondents report that, over the four years covered by the study, their nonunion hourly employees actually received slightly higher annual wage increases than did their union employees.

Also, the data show that the discrepancy between cost-of-living and average annual merit increases is causing far greater concern than salary compression. The respondents indicated that problems here can lead to declining morale and increased turnover. But neither this problem nor compression will appreciably affect productivity, according to the respondents.

CAUSES OF COMPRESSION

The following circumstances, either individually or in combination, seem to be the most common causes of compression.

- Union-negotiated wage settlements that were equal to or greater than the annual salaried merit budget are associated with a high incidence of compression in the supervisor/hourly subordinate relationship.
- Examination of the data on merit budgets and general increases suggests that some organizations have borrowed from their merit budgets in order to pay for general increases for salaried employees. Many compensation administrators would consider this practice unacceptable. And, indeed, it seems to make the situation worse: Among the organizations covered by this survey, only those *with* compression problems severely reduced their merit grant for the year in which the general increase was given.
- In many organizations, the heavy demand for engineers and data processing personnel has pushed salary offers up faster than the annual merit increases for the supervisors of these individuals.
- Organizations that practice high conformity to established rules and procedures seem to experience more compression problems than those that use a flexible approach.

SOLUTIONS

It is apparent that no single solution or set of solutions will answer everyone's needs. Rather, each organization will have to identify a specific set of measures designed to answer its particular problems. Naturally, the first prerequisite is that the organization possess the economic wherewithal to apply the solutions. Many of them are obviously costly. In fact, it is reasonable to speculate that many organizations suffer from compression simply because they cannot finance the solutions.

The last section of the questionnaire presented respondents with a list of 16 solutions. Here, ranked in order of their popularity, are those that received the most support.

- Develop or expand in-house skill-training programs, especially in high-demand classifications.
- Establish (or expand) a broad-based supervisory/managerial bonus program that

instantly rewards good performance or special effort.

- Institute a program (or broaden current program) to promote college relations and enhance recruiting success.
- Grant additional compensation for overtime hours worked to first- and second-line supervisors.
- Adopt a harder line in union negotiations to restrain the size of wage increases.

Two additional findings should be kept in mind. First, organizations without compression problems did not avoid compression by being overly generous. These organizations had no greater incidence of across-the-board or general increases, and their merit programs were only marginally higher than for organizations with compression.

Second, organizations that avoided compression did not do so by reducing or restraining the year-to-year increases in offers to college graduates. Also, virtually all organizations surveyed indicated that they do not intend to reduce the quality of their college recruiting efforts.

Finally, one irony is worth noting. Many of the respondents who indicated that their organizations were struggling with compression also reported average supervisor/subordinate differentials that actually *exceeded* the differentials dictated by official policy. This suggests that the presence of a problem is, to some extent, a matter of how an individual views the situation and that subjective feelings about what is equitable or reasonable may carry more weight than external standards. What one person might define as a compression problem, another might see as a perfectly reasonable earnings differential.

2

COMPANY POLICIES

A flexible approach to merit increases may have provided some organizations with one key to avoiding compression. More specifically, those organizations that linked a flexible merit increase scheme with a more market-sensitive job evaluation system seem to have been the most successful in sidestepping compression.

This conclusion emerges from the data provided by the first section of the questionnaire, which focused on issues of salary administration. Here, respondents provided data on the type of job evaluation system used, the type of merit system, the frequency of general increases offered to salaried employees, and the extent of the profit sharing and bonus programs. Such policies provide the framework under which wages and salaries are administered. When the data were cross-tabulated and the extraneous factors (such as company size) accounted for, the connection between flexible merit awards and market-sensitive job evaluation was one of the few significant relationships to emerge as a characteristic of those organizations that indicated they had no compression problems.

More generous than average grants (whether from merit awards or general increases) in themselves had far less power in fending off compression. And those organizations that appear to have siphoned monies from their merit budgets in order to support yearly general increases may have made matters worse, at least as far as compression is concerned.

Indeed, these findings make sense. Flexible merit increases linked with a general increase system that keeps an employee's salary "at par" with the industry averages (the "market") provide one means for retaining—and rewarding—valuable employees. Offered over a period of time, the combined increase systems raise the average pay for each classification, creating a buffer against whatever other influences might tend to warp the system into inequity.

The suggestion that the merit system is the key (or at least part of the key) may strike many as a feeble solution. Merit systems are floundering. For some organizations, the approach to merit pay has become so entrenched in rigid formulae, and so diluted by other considerations (an employee's length of service, for example) that it reflects "merit" in name only. Furthermore, problems with the performance appraisal system —the process of determining who is doing an above-adequate job and who isn't—frequently pull the carpet out from under otherwise sound merit administration systems. Newer forms of organizational structure (matrix arrangements, for example) add additional complications, as does company size. And, of course, an organization's ability to pay—in other words, its profitability—can dampen pay-for-performance programs considerably.[1]

[1] Profitability did not, however, seem to be a determinant of whether an organization has a compression problem.

For some salary administrators, the future of merit pay looks pretty bleak. Still, the data from this survey establish compelling ground for renewed attention to merit pay as a key to avoiding compression. It's tempting, of course, to look at other approaches—bonus programs and profit sharing, for example. These might seem to offer equally attractive solutions. The participants in this survey, however, are not considering them as strongly as one might suspect.

Let's take a closer look at how the questions were worded and at how the participants responded.

Question 1. What type of job evaluation system does your organization have?

To answer this question, respondents checked one of five boxes: (1) point/factor comparison, (2) benchmark or key job, (3) Hay System, (4) no system, or (5) other.

Table 3 shows the distribution of responses for both the total sample and for the firms with and without compression problems. Viewed superficially, the results seem to point toward several relationships between the use of certain job evaluation systems and the presence or

Table 3. Job evaluation and merit award systems: organizations with and without compression problems.

	Total		*Organizations with Problems*		*Organizations without Problems*		
	Number	*Percent*	*Number*	*Percent*	*Number*	*Percent*	*Rank*
A. Job evaluation systems							
Base, total respondents	613	100	411	100	190	100	
Point/factor comparison	209	34	140	34	64	34	2
Benchmark or key job system	206	34	132	32	71	37	1
Hay System	123	20	89	22	33	17	3
No system	38	6	23	6	12	6	5
Combination of above	52	9	39	9	16	8	4
B. Merit award systems							
Formal budgets, planning, and control	414	68	293	71	114	60*	
Controlled by budgets only	79	13	45	11	34	18*	
Loose control, case-by-case approval	82	13	50	12	28	15	
Informal control, no system	18	3	12	3	5	3	
No program	10	2	6	2	4	2	

*The differences between these statistics are significant at the .01 level

absence of a problem. But when these relationships were tested for statistical significance, the possibility of any decisive conclusions evaporated. In other words, no one type of job evaluation system in itself is more effective than any other in holding the line against compression.

The point/factor systems apply a variety of comparative and ranking procedures to establish job gradations and salaries based on difficulty, level of responsibility, and other factors. These systems go by a variety of names: Evalucomp, Stanton, and Smith-Murphy, to name a few. And, of course, many organizations have developed their own. The Hay System, a widely used point/factor comparison approach, was separated from the others as an aid to the respondents.

As Table 3 shows, point/factor comparisons are widely used throughout all sizes of organization, but the Hay System is more commonly used in larger companies. It appears, at first glance, that the Hay System is associated with a larger-than-usual number of compression problems. But the context (organizational size) rather than any particular flaw in the system seems to account for this association. In the same manner, those firms using "no system" seem to have had more success in escaping compression problems. These are the smaller firms (fewer than 500 employees), and company size (rather than the absence of a system) explains this relationship.

Benchmark/key job systems are closely tuned to industry or regional compensation practices through some form of "market research." In other words, job worth is determined heavily by external factors as expressed by the going rate for each particular skill. Internal factors play a significantly smaller role in determining the worth of a job. In point/factor systems, internal and external conditions are taken into consideration, more or less equally. Table 3 seems to suggest that benchmark/key job systems are associated with fewer compression problems. But again, finer analysis discloses that this relationship is not in itself statistically meaningful. However, when the benchmark/key job approach is considered in the light of the merit award system, a different interpretation emerges.

Question 2. What type of merit award system does your company have?

Respondents were given five choices, arranged in terms of increasing flexibility: (1) formal budgets, planning, and control, (2) controlled by budgets only, (3) loose control–case-by-case approval, (4) informal control, and (5) no program.

At one end of the spectrum, an organization using formal budgets, planning, and control might, for example, adopt a policy that total merit increases for a given division are not to exceed 10 percent of the total salary for that division. A master plan covering an entire year's increase for the organization is written and approved a year in advance. This amount is budgeted for–and distributed. Toward the other extreme, an organization might distribute merit increases only when need and inclination arise.

Most firms (68 percent) use the first approach, and 71 percent of these fall into the category of organizations having compression problems–significantly more than the overall average. At the same time, those organizations using systems that are "controlled by budgets only" did markedly better in combating compression. The cross-tabulations reveal a consistent relationship between organizational size and formality of planning. That is, the larger companies tend to have more formal planning systems, the smaller companies tend to be less formal.

Finally, when we look at the organizations using both a benchmark system and "budgetary control only," we discover the most successful approach for organizations of all sizes. In other words, a "market sensitive" job evaluation system used in the context of a flexible merit system (one that is not heavily constrained with

formal budgeting and preapproval) seems to create the wherewithal for dealing with the problem.

One word of warning is in order, however: Too much flexibility is as detrimental as too little. The data suggest that companies having no job evaluation system are also likely to do without a formal merit program. This combination, which opens the possibility of total flexibility, is no more successful in avoiding salary compression than any other approach.

Question 3. Does your company ever grant general increases for its salaried employees?

The respondents checked one of four boxes: (1) rarely–about once every ten years, (2) occasionally–about once every five years, (3) yearly, or (4) never.

For many organizations, general increases represent one way of keeping salaries competitive in the marketplace and helping their employees cope with increases in the cost of living. Keep in mind, however, that we are *not* talking about cost-of-living adjustments, increases that are specifically tied to fluctuations in the consumer price index. Also remember that we are talking about *salaried* employees, not hourly workers. Indeed, in our sample general increases for salaried workers are far less common than are other forms of salary adjustment. In fact, as Table 4 shows, 52 percent of the respondents indicated that their companies never engage in this practice, and only 17 percent (105 organizations) do so yearly.

These data were cross-tabulated with the yearly merit budgets that were associated with these practices, and the amounts for the four years were totaled. Surprisingly, we found that there were no real differences in the merit awards in companies practicing very different general increase programs with their salaried employees *–except* most notably the 105 organizations who make it a practice to grant general increases to their salaried employees annually.

As a group, their merit budget total for the four years was almost 10 percent less (2.5 percent per year) than companies practicing other methods. These data then gave rise to speculation as to how much these organizations might be "trading off" portions of their merit budgets and depositing these amounts in the form of a yearly general increase. Recall that the organizations reported no difference in success with avoiding compression problems in any of the general increase practices.

Further investigations of the general increase practice seemed warranted. Thirty-seven of the 105 organizations that granted increases yearly reported that they did not have compression problems while the remaining 68 did. But the difference in total merit averages for all organizations surveyed, as we noted previously, was highly significant–and extreme. Compare the four-year total of 25.5 percent with the next lowest total (34.8 percent) for those organizations granting occasional general increases.

Table 4. The relationship between general increases and salaried merit budgets.

	Frequency of General Increases				
	Rarely (1 in 10 years)	*Occasionally (1 in 5 years)*	*Yearly*	*Never*	*Total*
Number of organizations	24(4%)	137(22%)	105(17%)	319(52%)	613(100%)
Four-year total, merit increase budgets	35.21%	34.78%	25.53%	36.10%	34.14%

First, the frequency of general increases was analyzed against the amounts of these increases for each class of organization (compression versus no compression). This tabulation (see Table 5) confirmed the suspicion that the yearly general increase amount was significantly greater in those 37 organizations without compression problems. Second, the frequency of general increases was compared with the size of the merit budgets. This analysis (see Table 6) again pointed to significant differences: Over a period of time, merit averages for the 37 organizations without compression problems came out almost 2 percent per year higher than those 68 organizations with problems.

As tempting, then, as general increases may be as a tool for alleviating the hardships created by

Table 5. Frequency of general increases versus amount of general increase.

	Frequency			
	Rarely (1 in 10 years)	*Occasionally (1 in 5 years)*	*Yearly*	*Never*
Amount: organizations with compression problems	3.2*	4.8	7.3*	N/A
Amount: organizations without compression problems	5.2*	4.6	9.0*	N/A

*The differences between these amounts are significant at the .02 level or better

Table 6. Frequency of general increases and annual merit budgets.

		Rarely (1 in 10 years)	*Occasionally (1 in 5 years)*	*Yearly*	*Never*	*Average*
Organizations *with* compression problems	1978	8.4	7.8*	5.0*	8.2	
	1979	8.6	7.8	5.4*	8.3	
	1980	9.7	9.0	6.0	9.4	
	1981	9.6	9.6	6.2*	10.0	
	Total	36.2	34.2	22.6*	35.9	33.63
Organizations *without* compression problems	1978	7.8	8.6*	6.8*	8.2	
	1979	8.3	8.3	7.2*	8.6	
	1980	9.0	9.5	7.7	9.6	
	1981	9.1	10.2	8.5*	10.0	
	Total	34.2	36.6	30.2*	36.4	35.42

*The differences between the two means for corresponding years between the two groups are significant at the .02 level or better.

inflation, the combination of a generous annual increase and a lower than average merit budget is most assuredly associated with a high incidence of compression. Only those organizations that maintained a substantial merit budget *in addition to* the general increases avoided compression.

Question 4. Please furnish the annual salaried merit increase budget percentage for the years 1978 to 1981.

Of considerable concern to compensation managers, as well as to organizations in general, are the data portrayed in Figure 2. Here the cost of living is contrasted with merit award trends over the four years. Whether you have a compression problem or not, the contrast is quite vivid. In that period of time, employees covered by this survey "lost" roughly 9.75 percent in purchasing power.

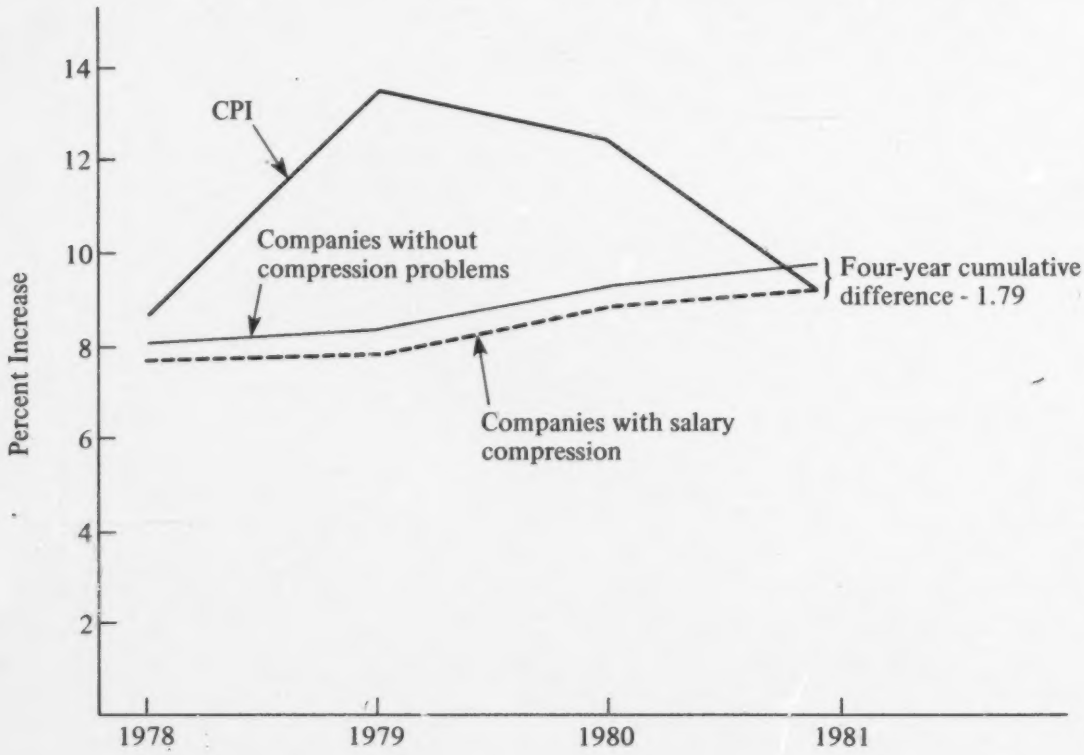
Table 7 reveals that there is little difference in annual merit increase between organizations that have compression problems and those that do not. Over the four-year period, the cumulative difference is about 1.8 percent.

This supports our previous conclusion: It's not the size of the merit budget in itself that makes a difference, but the size of the budget in context of the total set of administrative policies and practices.

We have already seen how merit administration policies interact with company practices in general increase programs. Other cross-tabulations reveal these relationships:

- Companies that do not have job evaluation systems tend to grant larger merit increases. These run almost 1 percent a year ahead of

Figure 2. CPI versus merit changes: companies with and without compression problems.



organizations with Hay, benchmark, or point/factor systems.

- Organizations with fewer than 500 employees tend to grant consistently higher merit increases. In many instances, the difference is as much as 1 percent per year.
- Government units consistently report average merit grants well below the mean for the rest of the organizations.
- In three out of four years, service organizations granted significantly higher merit increases.
- The location of corporate headquarters does not seem to affect the size of the merit increase, with the exception that foreign-based corporations, as well as organizations based in the northwestern and southwestern parts of the United States. These seem to grant consistently higher merit increases.

Question 5. What salaried job classifications are affected by the above-mentioned merit budgets?

Of the total sample, 54 percent included all classifications and 40 percent excluded at least some. Six percent did not answer.

One might speculate that those organizations that excluded upper levels of management from the merit programs applied to the lower level managers would be "insulated" against compression. For these executives salary increases may be substantially larger and only a part of their total compensation program.

Some surveys report that executive salary increases have averaged over 12 percent a year for the past several years, substantially exceeding the percentage increases of all other salaried employees. Perhaps this fact (and staying at least even with inflation, if not ahead of it) may cause these managers to be less sensitive to (and therefore less prone to deal with) compression problems.

Cross tabulations against the presence or absence of a problem, however, did not reveal any significant findings. One is compelled to doubt that any relationship exists, at least in this sample.

Table 7. Average annual salaried merit increases.

	Amounts			
Year	*Organizations with Compression Problems (percent)*	*Organizations without Compression Problems (percent)*	*Significance*	*Average, Total Group (percent)*
1978	7.63	8.05	.05	7.74
1979	7.78	8.31	.01	7.94
1980	8.82	9.26	.05	8.94
1981	9.40	9.80	.10	9.52
Four-year cumulative	33.63	35.42	1.79% Difference (significant @ .05)	34.14

3

UNION DEMANDS and THEIR IMPACT on COMPRESSION

Unions have sometimes forced pay higher than management had planned. Without prior provision for such generous increases, management has occasionally been reluctant—or simply unable—to follow up wage increases with similar increases for unorganized employees, particularly the hourly employees' direct supervisors. In addition, the cost-of-living clauses frequently found in union labor agreements, especially during the past few years, have been particularly insidious. Automatic and inexorable, they constantly press hourly earnings upward while corporate budgets press downward.

As a result, the differences in income between supervisor and subordinate get smaller and smaller over a period of years. In extreme cases, supervisors find themselves with less income than those who work under them. This situation is often further aggravated with supervisors receiving no pay for overtime work, while the subordinates walk away with paychecks fattened by overtime at time-and-a-half and sometimes double rates.

And, indeed, analysis of the survey data on wage settlements, COLA clauses, percentage of the workforce organized, and incidence of compression shows that pressure from organized labor has contributed significantly to the narrowing of the compensation gap between supervisor and hourly subordinate. But the picture is not all bleak.

On a more positive note—one that underscores the importance of labor negotiations—a significant number of those organizations reporting "no problem" were able to meet the challenge. Either they held the line on union demands and granted smaller-than-average settlements, or they bit the bullet and accepted the pain of providing salary increases for supervisors that were proportional to the wage increases.

And, on the most optimistic note of all, the earning differentials between supervisor and subordinate in these organizations seems to be widening.

Five questions were used to collect data on the various aspects of labor organization.

Question 1. If your company currently has a union agreement, please estimate the percent of total employees organized in each category. (Hourly, technical/professional, office/clerical, not organized).

Cross-tabulations of the responses to this question with other data revealed a number of prominent patterns:

- The larger the organization, the higher the percentage of wage employees organized.
- Organizations without compression problems are more likely to be free of union organization.
- Large organizations that stated that they had no problem tended to grant smaller wage increases to their union employees.

The first two patterns point toward a strong correlation between the percentage of the workforce organized and the presence of a compression problem. Again, this underscores the point that compression is a big-company problem. Over all, the number of wage earners organized ranged from 6 percent in organizations with fewer than 100 employees all the way up to 70 percent in organizations with 10,000 or more employees. The larger the company, the greater the union involvement, *and* the greater the likelihood of a compression problem.

But, of course, not *all* of the larger organizations reported that they had a problem. When these organizations were examined carefully, a negative correlation emerged between (1) the percentage of the workforce organized and (2) the size of the wage settlements. In other words, among the larger organizations that avoided compression, the ones with the greater numbers of organized hourly employees granted smaller wage increases. This point is reinforced when we look at the responses to the next question.

Question 2. Please furnish typical or average union wage settlements for the years 1978 through 1981.

The responses were analyzed to find answers to two questions:

- Was there a significant mean difference in union pay increases between organizations with salary compression problems and those without?
- How did the union pay increases compare with average salary increases?

The graph in Figure 3 clearly indicates that companies without compression problems consistently granted marginally higher salary increases. And at the same time, they contained their increases to hourly employees at least as well as companies that do have compression problems.

Table 8 shows no significant difference between the hourly wage increases of organizations with and without compression problems. But when these hourly rates are contrasted with the corresponding cumulative merit salary increases, we find very significant contrasts in the rate of change.[1]

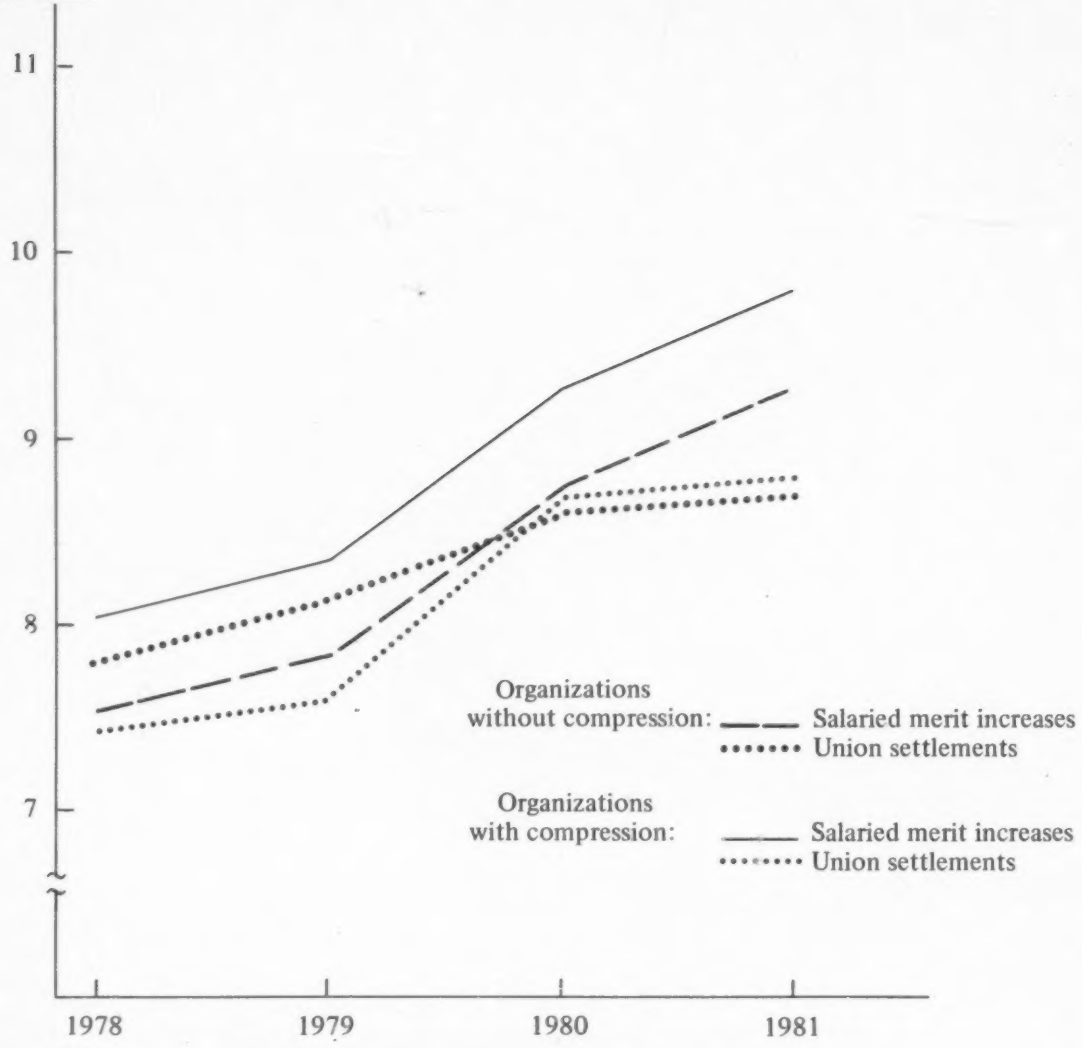
Organizations *without* compression problems have a cumulative rate of +2.88 percent, while organizations *with* compression problems have a nonsignificant +0.4 percent rate. This means that organizations without compression problems are clearly widening – albeit slowly – the earnings gap between supervisors and their hourly employees. Organizations with compression problems seem to maintain a status quo in the earnings relationship.

When the rate of change was computed as a function of the size of the organization, we again found a pronounced inverse relationship: The larger the organization, the smaller the percentage difference between salary increases and union wage increases.

It is clear, then, that organizations without compression problems combine more liberal merit salary increases with more strenuous bargaining to maintain a favorable relationship in pay between supervisor and wage employee.

[1] The rate of change is determined by totaling both the amounts of each of the four merit increase and union wage settlement years for each of the two types of organization and subtracting the difference. A negative number indicates that union wage settlements are *greater* than their corresponding average salaried merit increases –a negative rate of change. A positive rate of change means that the difference or margin between salaried earnings versus union hourly earnings is increasing.

Figure 3. Union wage increases versus merit increases: organizations with and without compression problems.



Cumulative differences, salaried merit increases versus union wage settlements (four-year rate of change):
Organizations without compression problems +2.88%
Organizations with compression problems +0.42%

Question 3. Does your union agreement(s) contain a COLA clause?

Large and quite significant differences between the two types of organization emerged. Among organizations *without* compression problems, 61 percent had no cost-of-living clause, while 32 percent did. Organizations *with* compression problems were evenly divided: 46 percent without COLA clauses and 46 percent with. The payout formulas were practically identical for both types of organization. Cost-of-living clauses

Table 8. Union wage settlements versus salaried merit budgets: organizations with and without compression problems (percent).

Year	*Organizations with Problems*	*Organizations without Problems*
1978	7.79	7.46
1979	8.05	7.60
1980	8.67	8.66
1981	8.71	8.82
Total (1)	33.21	32.54
Total salaried budget (2)	33.63	35.42
Difference (2–1)=Rate of change	+0.42	+2.88

appear in 82 percent of the labor agreements of the transportation/distribution industry and in only 12.5 percent of the labor agreements of government employees.

Question 4. If your company has some unorganized units, or no labor union representation, list the average hourly wage increases for the years 1978 through 1981.

Answers to this question were tested for significance on the basis of two relationships:

- The relationship between wage settlements in organized versus unorganized companies, both those with salary compression problems and those without.
- Whether salaried and unorganized wage people were treated similarly in each type of organization.

We could find no significant differences in pay increases for nonunion employees between the two types of organization. Table 9 shows the data and contrasts them cumulatively with sim-

Table 9. Comparative earnings increases and rates of change (percent).

	Organizations with Compression Problems		*Organizations without Compression Problems*	
Year	*Union Settlements*	*Nonunion "Settlements"*	*Union Settlements*	*Nonunion "Settlements"*
1978	7.79	7.88	7.46	7.98
1979	8.05	8.30	7.60	8.53
1980	8.67	9.38	8.66	9.24
1981	8.71	9.62	8.82	9.75
Cumulative increase	33.21	35.18	32.54	35.89
Rate of change: nonunion minus union		+1.97		+3.35
Cumulative salaried increase	33.63	33.63	35.42	35.42
Rate of change: salaried minus union	+.42		+2.88	
Rate of change: salaried minus nonunion		−1.55		−.47

ilar data for organizations with unions, as well as with average annual merit salary increases for the same years.

An interesting conclusion can be drawn from this: Companies without compression problems have a slightly greater rate of change in wages between union and nonunion employees over the four-year period. Furthermore, the percentage increase in pay is almost exactly the same for salaried employees and nonunion wage employees; while in organizations with compression problems, the pay increases for nonunion employees are approximately 1.5 percent greater than pay increases for salaried people. The important finding is that *all* managements in our sample consistently granted markedly higher increases to nonunion wage employees than they did to their union counterparts. However, we should view the statistics with caution, since the base rate on which the increases were computed may not be the same.

Our correlation tables revealed some interesting and somewhat puzzling results. Table 10 discloses very strong and highly significant pay relationships between union and nonunion employees in organizations having compression problems. Organizations without compression problems show no such relationship, except in 1981.

This strong relationship may indicate that organizations having compression problems adhere more rigidly to some preplanned schedule of increases and are, therefore, more likely to perpetuate whatever earnings differences exist between the various classes of their employees.

Companies that avoid compression problems are perhaps more flexible and are more prone to ensure that salaried employees do not fall behind their union counterparts. Organizations with compression problems tend to be less sensitive, or perhaps less economically capable, in this regard. Since we already know the four-year cumulative differences in earnings increases between these two groups, the relationship is a telling one.

Our Pearson tables reveal that neither group showed any tendency toward similar treatment in percentage increases for union versus salaried employees in 1978 and 1979. In 1980 and 1981 both groups moderately aligned increases for the two classes of employees, perhaps due to the

Table 10. Pearson product moment correlations coefficients: union versus nonunion hourly employees.

Year		*Organizations Reporting Compression Problems*	*Organizations Reporting No Compression Problems*
1978	r =	.60	.23
	Significant to =	.001	NS*
1979	r =	.58	.17
	Significant to =	.001	NS
1980	r =	.50	.11
	Significant to =	.001	NS
1981	r =	.67	.38
	Significant to =	.001	.004

*NS–not significant

extremely high cost-of-living increases for the years just prior.

Table 11 depicts the relationship between nonunion wage increases and merit increases for the two classes of organization. Suffice it to say that both classes tend to treat the two groups of employee similarly. The point is, the tendency to do this is stronger in organizations without compression problems than it is in those with problems.

Regarding organization size, cross-tabulation data reveal a very slight tendency for smaller organizations to be more generous to their unorganized wage and salaried personnel and somewhat less generous to their union employees. The opposite is true—again only slightly—the larger the organization becomes.

Question 5. What, if any, influence is there between your hourly wage settlements and salaried merit budgets?

For this question, we divided our sample into two parts:

- Companies that take into consideration the relationship between the two.
- Companies that do not.

Here we found that a greater number of companies with compression problems take union contracts into consideration in setting their budgets for salaries. The question is: "What kind of consideration?" In the absence of adequate correlation coefficients between salaried merit budgets and union settlements for both types of organization, we could get no clue. Perhaps the above relationship is merely chance.

Larger organizations do report considerable influence of contract settlements on salary budgeting. Smaller organizations report a good deal less of such influence. Again, this "lock step" influence is revealing.

Parenthetically, the cross-tabulations indicated that companies that tend to take profitability into consideration when setting up merit budgets for salaried people also tend to look at union contract settlements as well when doing their salary planning.

Table 11. Pearson r's: nonunion wage increase percentages versus salary merit increase percentages.

Year		*Organizations Reporting Compression Problems*	*Organizations Reporting No Compression Problems*
1978	r =	.22	.37
	Significant to =	.003	.001
1979	r =	.30	.34
	Significant to =	.001	.001
1980	r =	.22	.28
	Significant to =	.001	.003
1981	r =	.22	.54
	Significant to =	.001	.001

4

ARE COMPRESSION PROBLEMS ACTUAL or ONLY PERCEIVED?

It appears that, in many cases, compression problems are more perceived than actual. Or, to put it another way, organizations have compression problems if they think they do.

Consider, for example, the intervals between supervisors and their subordinates. A comparison between those organizations that say they have compression problems and those that say they don't revealed that differences *do* exist. But even though these differences are statistically significant, they are actually quite small. For example, a company that feels it has a compression problem might have a difference of 15 percent between the salaries of supervisors and the pay of hourly employees. A company that says it has no compression problem might, by comparison, have a difference of 18 percent. The same is true for the intervals between recent college graduates and their supervisors: A relatively narrow margin of difference distinguishes those companies with compression problems from those without, even though the average earnings differences are greater in total.

A far more provocative indication that compression is a matter of perception came from an analysis of organizational guidelines. The questionnaire asked respondents to state the supervisor/subordinate pay intervals that they attempted to maintain as a matter of policy. In many instances, organizations that felt they had a problem were found to exceed their own guidelines. If the organizational policy was to keep supervisors 11 to 14 percent ahead of their subordinates in pay level, for example, frequently the organization would report that it actually maintained a differential of 15 to 20 percent—at the same time reporting that it had a problem.

How is this to be interpreted? Does it suggest, perhaps, that our respondents see the company guidelines as inadequate or inequitable? Whatever the reason for the positions taken, it seems that salary compression exists more as a subjective feeling than an objective fact among the compensation directors who responded to our questionnaire.

SUPERVISOR/SUBORDINATE PAY INTERVALS

This section of the questionnaire collected data on (1) the average differences between supervisors and their subordinates, (2) company policies and guidelines that apply to these intervals, and (3) the percentage increase, year to year, for offers made to recent college graduates in a variety of disciplines: engineering, accounting, data processing, and so on.

First, we wanted to find out how the pay offered to college graduates from year to year compared with the annual merit increases of the organization. This would reveal whether the company was creating a compression problem by increasing the year-to-year offers to new salaried employees faster than it was increasing salaries of existing employees through merit awards. Second, we wanted to gather statistical evidence that would reveal the magnitude of salary compression problems within the supervisor/subordinate relationship and pinpoint the most sensitive areas of compression. Last, we wished to compare actual earnings intervals with those stated as a matter of policy. We hoped to determine how well our sample organizations are doing relative to their earnings differential objectives.

Question 1. Please furnish the estimated percent increase, year by year, of your offers to college graduates (bachelor's degree) for the years 1978 through 1981.

The data shown in Table 12 disclose three main findings.

1. Organizations without compression problems raised their salary offers to recent college graduates a little more than companies with compression problems. The cumulative four-year increases showed slight but statistically significant differences between the two categories. Importantly, organizations without compression problems increased their offers to college graduates at a *greater rate* than did those organizations with problems.

2. When we subtracted these four-year cumulative increases in salaries offered to graduates from the organizations' merit increases for salaried supervisors of new college graduates for the same four years, we obtained the rate of change data.[1] Here we found that organizations with and without compression problems fared about equally well—or poorly, as the case may be. Not surprisingly, in the engineering and data processing fields, the gaps in total earnings between supervisors and subordinates are getting narrower. Companies competing for the limited number of graduates are increasing their offers faster than they are increasing merit raises of the supervisors who will be overseeing the new graduates. And it is probably safe to assume that

[1] Recall that the rate of change is the figure that indicates salaries of supervisor and subordinate coming closer (a minus figure), staying relatively neutral (a small minus or plus figure) or becoming wider apart (a plus figure).

Table 12. Four-year cumulative differences: merit percent increases versus percent increases in salary offers to college graduates contrasted to their respective rates of change (percent).

	Organizations with Compression Problems			*Organizations without Compression Problems*		
Degree	*Offers*	*Merit*	*Rate of Change**	*Offers*	*Merit*	*Rate of Change*
Engineering	37.72	33.63	-4.09	38.30	35.42	-2.88
Business/accounting	33.29	33.63	+.34	35.19	35.42	+.23
Sales/marketing	34.56	33.63	-.93	34.48	35.42	+.94
Production	33.25	33.63	+.38	36.32	35.42	-.90
Data processing	38.07	33.63	-4.44	39.28	35.42	-3.86

*Merit minus offers

these differentials have been narrowing for a period of time longer than the four years covered by this research study.

3. One theory has been that companies avoid compression problems by offering new college-level employees lower salaries, so as to maintain a desired salary interval between supervisor and subordinate. Our data do not bear this out. However, we should exercise caution when interpreting these findings because the base salaries on which these percent increases are calculated may not be equivalent.

To get deeper into this interesting and somewhat perplexing situation, we then analyzed the data by separate academic discipline: engineering, business/accounting, sales/marketing, production, and data processing, as shown in Table 13. Each organization's previous four-year merit increase program was correlated with its increases in offers to college graduates. We found that organizations with compression problems show a slight to moderate correlation (all significant at the .02 level or better) between the two sets of data for each discipline every year. Organizations without compression problems showed no relationships that were significant at the .02 level. One explanation might be that organizations without compression problems may tend to treat each discipline separately (perhaps selectively reacting to each problem independently) while keeping a careful eye on their merit increase programs. Companies with compression problems, however, seem to be a little less flexible and, as a result, may tend to perpetuate the compression problems that they already have.

No doubt this will come as pleasing and surprising news to college students: For the past four years—at least—they have been receiving starting pay increases (while they sat in their classrooms) that were greater than the average merit increases they would have received had they been working.

To see if there has been any change in the trend lines of merit increases and offers to engineering graduates, refer to Figure 4. It indicates that

Table 13. Pearson product-moment correlation coefficients (r): annual salaried merit increases and increases in offers to college graduates.

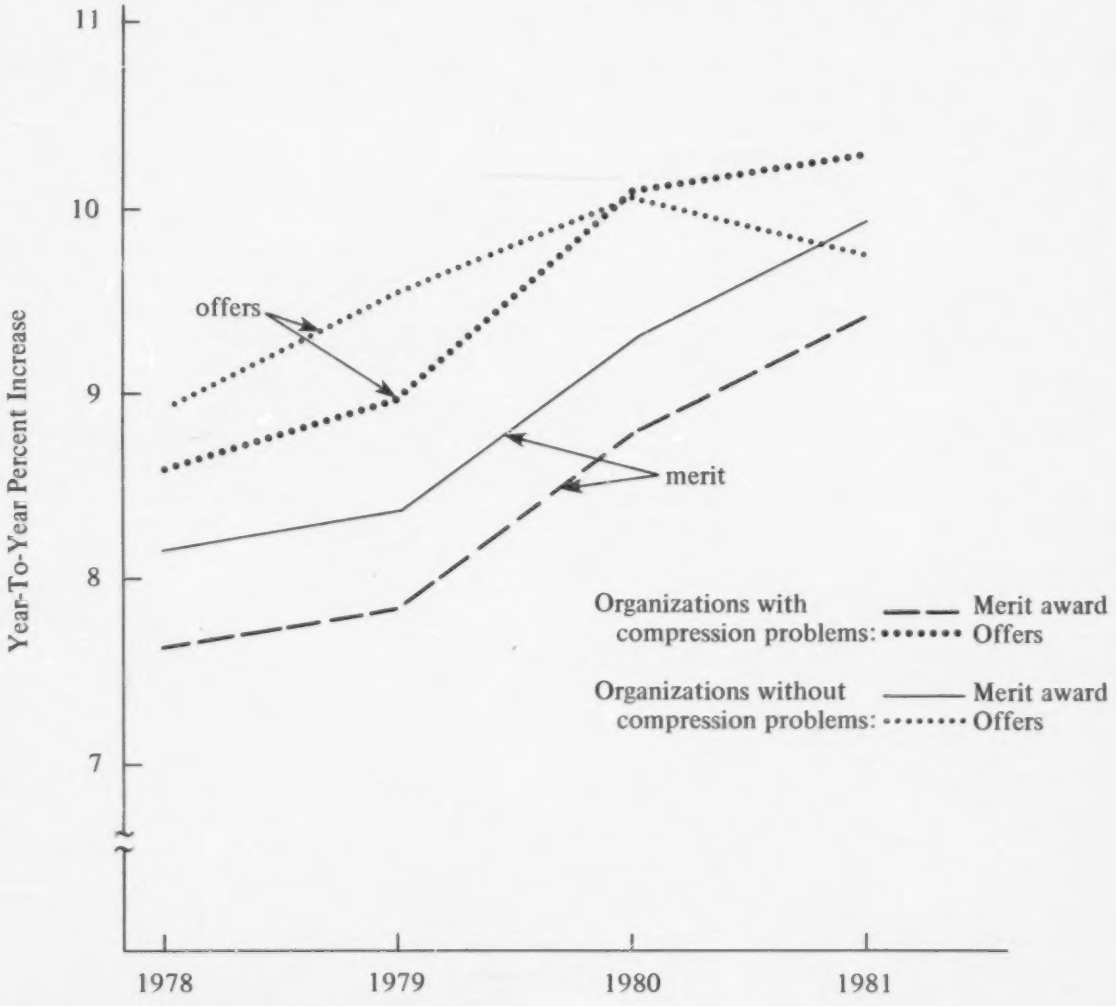
		Organizations Reporting Compression Problems				*Organizations Reporting No Compression Problems*			
Discipline		*1978*	*1979*	*1980*	*1981*	*1978*	*1979*	*1980*	*1981*
Engineering	r =	.17	.12	.25	.22	.12	-.008	.24	.11
	Significant to =	.03	NS	.001	.003	NS	NS	.03	NS
Business/	r =	.14	-.08	.22	.17	.07	.07	.15	.12
accounting	Significant to =	.06	NS	.003	.02	NS	NS	NS	NS
Sales/	r =	.14	.16	.31	.24	.09	.14	.18	.19
marketing	Significant to =	NS	NS	.001	.01	NS	NS	NS	NS
Production	r =	.29	.26	.33	.31	-.05	.04	.19	.01
	Significant to =	.02	.03	.003	.007	NS	NS	NS	NS
Data	r =	.36	.19	.28	.25	.18	.03	.26	.23
processing	Significant to =	.001	.02	.001	.002	NS	NS	.03	.05

NS—not significant

organizations without compression problems have, if not reversed the trend, at least perhaps neutralized it; 1981 is the only year in the four-year study in which average annual merit increases budgeted have approximated the increases in offers. No such trend is seen in the lines for organizations with compression problems.

But in the data processing field, the trends are different, as shown in Figure 5. In fact, it appears that the situation may be getting worse

Figure 4. Annual merit award averages versus increases in offers to engineering graduates.



Cumulative rate of change, merit versus offers:

Organizations without compression problems –2.88%
Organizations with compression problems –4.1%

Both groups have trends leading to greater compression, with organizations already reporting problems doing so at a greater rate.

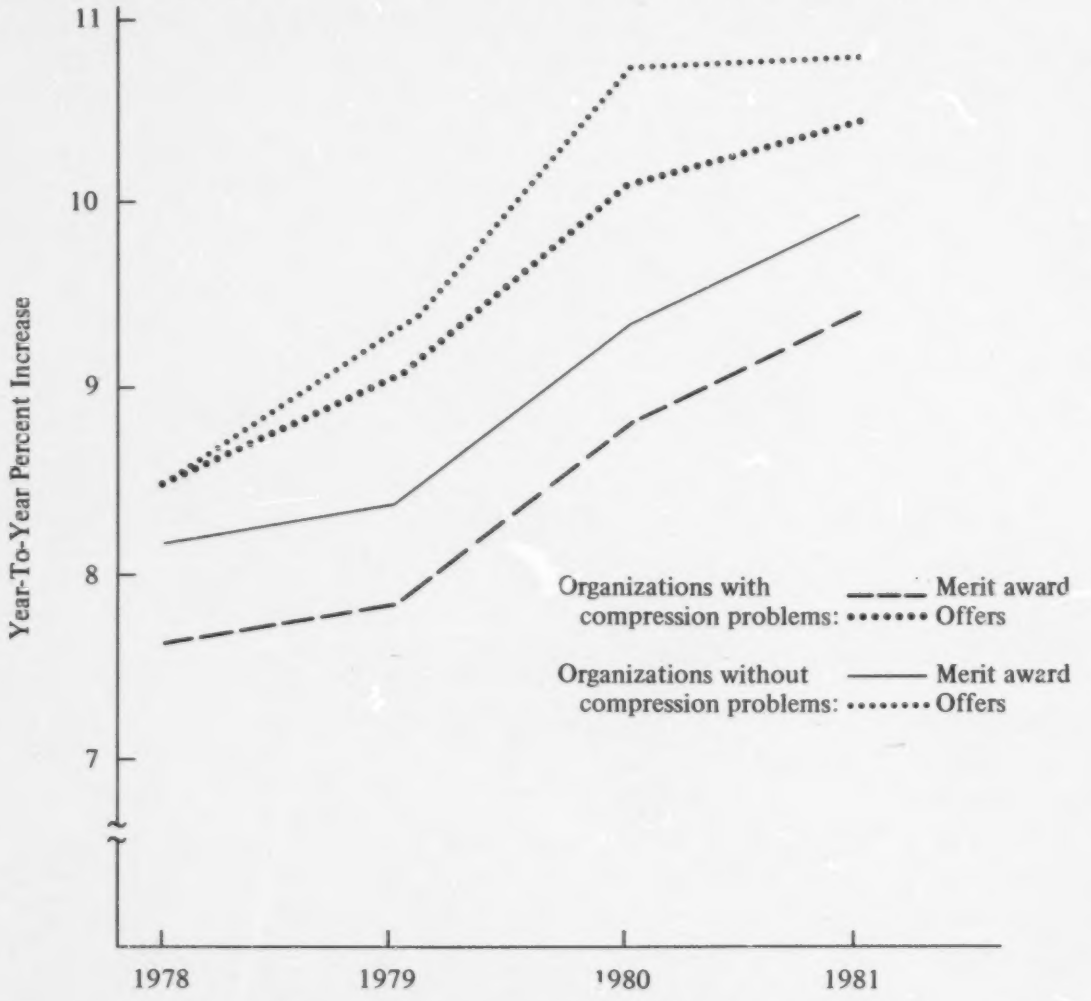
in organizations that do not report compression problems, even though their current cumulative rate of change is less than in companies with compression problems.

Large organizations seem to have greater negative rates of change in the engineering and data processing fields than smaller companies. There is no discernible trend when we compare one geographical area with another.

For data processing, the greatest negative rate of change is found in the merchandizing, finance, real estate, communications/publishing industries. For engineering, the greatest negative rate of change shows up in the communications/publishing and utilities industries.

Question 2. What is the current typical average difference in total earnings between recent (roughly two or less years of experience) college

Figure 5. Annual merit averages versus increases in offers to data processing graduates.



Cumulative rate of change, merit versus offers:

Organizations without compression problems –3.86%
Organizations with compression problems –4.44%

graduates and their direct *supervisors* (plus or minus) by categories?

We were surprised to find that no negative differences were reported. In fact there were very few zero differences in earnings between supervisors and their direct subordinates. However, the average differences reported by organizations with and without compression problems are well defined and statistically significant, as Table 14 shows.

The reader might conclude that the magnitude of these differences is not very great. And this conclusion might again suggest that there are no universal, broadly distinguishable criteria defining the term "compression" (at least not in the salaried ranks).

Table 14 also compares the average differences in earnings with the four-year cumulative rates of change (taken from Table 12). We can see that things get neither better nor worse in business/accounting, sales/marketing, and production disciplines. And the past four years is probably a continuance of a parallel trend.

Again, data processing appears to be the most sensitive area in the salaried ranks. In engineering there may be some hope, as we saw in Figure 4. A reversal of the trend may be in the offing, at least for companies reporting no compression problems.

Organizations reporting the smallest average earnings differences (most compression?) between supervisors and subordinates in the engineering field are those in medical/health care, consumer manufacturing, and transportation industries. In data processing, the smallest differences were reported in the transportation/distribution and utilities industries. In both fields, the reported average differences were less than half the average for the whole sample. There appears to be no trend in terms of size of organization or geographical location.

Table 14. Average percent earnings differences: supervisors versus college graduates, contrasted with their respective rates of change.*

	Percent difference (Supervisors minus subordinates)		
Degree Type	*Companies with Compression Problems*	*Companies without Compression Problems*	*Significance***
Engineering	28.06	32.36	
(Four-year rate of change)	-4.09	-2.88	.05
Business/accounting	30.29	36.13	
(Four-year cumulative rate of change)	+.34	+.23	.05
Sales/marketing	30.01	35.22	
(Four-year rate of change)	-.93	+.94	.05
Production	27.74	33.93	
(Four-year rate of change)	+.38	-.90	.01
Data processing	22.29	29.31	
(Four-year rate of change)	-4.44	-3.86	.02

*Four-year cumulative merit increases minus increases in salary offers to college graduates.
**T-test of earnings differences between the two groups.

Now let us turn our attention from salaried personnel to the hourly wage earners.

Question 3. What is the typical approximate difference between a first-level supervisor and his or her *top-paid* hourly employee?

The responses to this question are summarized in Table 15. Again we see only a small difference in the earnings gap between companies with and without compression problems. Although these differences are statistically significant and replicable, they seem to add credence to the notion that the actual size of the gap may not be as important as how individuals perceive the difference.

Notice that in Table 15 the differences in pay between supervisor and subordinate in the hourly ranks runs somewhere between 15 and 20 percent, whereas in the salaried ranks (see Table 14 again) the differentials run from 22 to 36 percent. This clearly highlights the fact that the compression problems are more severe and delicately balanced in the wage area.

We turn up another interesting statistic when we look at our four-year rate of change data. Unlike the engineering and data processing situation among salaried employees, it appears that organizations *with* compression problems have stabilized the earnings gap between union employees and their supervisors, while losing a small amount of ground between nonunion employees and their supervisors. On the other hand, in companies *without* compression problems, the gap between supervisor and union employee is widening, while the gap between supervisor and nonunion employee has apparently stabilized.

In summary, the compression problem seems more acute in relation to hourly employees. Here, the interpersonal relationships between supervisor and his or her employees are often thought to be more adversarial, especially when unions are involved. Therefore, this is the area in which organizations might well concentrate their greatest efforts in attempting to resolve their compression problems, whether they be perceived or actual. It is also here where a compression problem might be more expensive to solve since in most industries supervisors of hourly employees are the largest contingent of the supervisory workforce.

In the white collar sector, salary relationships are less emotional, and usually of less economic

Table 15. Average earnings differences: first-line supervisors versus top-paid hourly employees (percent).

Discipline	*A Organizations with Problems*	*B Organizations without Problems*	*Net average difference, B–A*
Production	+15.5*	+20	+4.5**
Maintenance	+15.1	+18.2	+3.1**
Shipping/receiving	+16.7	+20.8	+4.1**
Four-year rate of change, *Union* employees	+0.42	+2.88	
Four-year rate of change, *Nonunion* employees	−1.55	−.47	

*These data contain large standard deviations and appropriate caution in interpretation is advised.
**The difference is significant at the .01 level.

consequence. College graduates and their supervisors often work in cooperative, project-like situations, where rank and status diminish in importance. Manager and person managed often have similar work to perform. And, in the white collar ranks, there is often a higher dedication and obligation to the development of the subordinate. This leads to supportive relationships that may tend to diminish or override the feelings associated with compression problems. Therefore, we may reasonably conclude that in the white collar sector, the psychological consequences of salary compression can be of less concern than in the blue collar sector, particularly when unions are involved.

Finally, let us compare, within the same organization, the earnings difference between supervisor and hourly subordinate, and supervisor and white collar subordinate.[1] We find that, if there is a moderate to small difference in earnings between supervisor and college graduate, there is also a moderate to small difference between supervisor and hourly subordinate. These correlations were highly significant in companies both with and without compression problems. What is noteworthy is the mean correlation between the two types of organization. Companies without compression problems showed higher average correlations than those with compression problems ($r = .494$ vs. $r = .398$, both significant at the .01 level).

So, we might conclude that, although all organizations show similar differences in earnings between supervisors and subordinates, this relationship is stronger and more consistent in organizations that feel they do not have a compression problem.

[1] Fifteen correlation coefficients were computed for each type of organization. The earnings differential for the top three hourly employees was correlated with the earnings differentials for college graduates in each of the five disciplines. Our purpose was to find if there was a consistent earnings differential among organizations across the various employee classifications and whether that relationship was different for organizations with and without compression problems.

Cross-tabulations suggest that government agencies consistently maintain high earnings differentials between supervisors and hourly subordinates. Companies in the transportation and utilities industries maintain rather narrow earnings differentials between supervisors and hourly employees.

Organizations with less than 2,500 employees consistently report somewhat higher earnings differentials than larger organizations do.

Question 4. What is the current typical approximate difference between a first-level supervisor and the average of the *top three* hourly employees he or she supervises?

The data obtained from this question, as well as the cross-tabulations and correlation coefficients, were almost identical to those from Question 3. Little would be gained from elaboration on these findings.

Question 5. What *positive interval* between supervisor's salary and his or her *hourly* employees' earnings do you attempt to maintain through your salary adjustment program?

If you have a similar salary adjustment program for direct supervisors of *recent college graduates,* what interval do you attempt to maintain?

The purpose of this two-part question was to measure the policy differences between organizations with and without salary compression problems and to compare these data with actual earnings differences reported earlier in the questionnaire.

The responses to the question are summarized in Table 16. It shows that, when it comes to *policy,* all organizations establish intervals from 13 to 16 percent. This applies to both blue collar and white collar segments of the workforce and in organizations that have compression problems as well as those that do not. Again, however, the *actual* differences in earnings between supervisors and subordinates are large and significant

Table 16. Average earnings differentials: supervisors versus hourly and college graduate subordinates as a matter of *policy*, contrasted to actual differences (percent).

	Organizations with Compression Problems		*Organizations without Compression Problems*	
	Policy	*Actual*	*Policy*	*Actual*
Supervisors versus hourly employees	+13.06	+15.76*	+15.25	+19.66*
Supervisors versus college graduates	+14.03	+27.80*	+15.94	+33.40*

*All actual differences between the groups are significant at the .01 level

among the two classes of organization. Furthermore, companies without compression problems have higher policy guidelines for earnings differentials and, on balance, exceed those guidelines by a greater margin.

The perplexing question is this: If both types of organization—those with and without salary compression problems—exceed their own self-imposed guidelines for maintaining salary differentials between supervisors and subordinates, why would one group report compression problems and the other not? Possibly the compensation administrators in organizations reporting compression problems feel that their guidelines simply do not provide enough differential between supervisor and subordinate to reflect differences in job content and responsibility.

The preceding investigation looked at the two classes of organization as composites. Perhaps there is a mix of data that might be misleading. On an organization-by-organization basis, how well do the direction and magnitude of actual earnings differences correlate with established policy? Let us see if the correlation matrix will shed further light on this problem. See Table 17.

Table 17. Correlation coefficients*: policy versus actual earnings differences of supervisors and their subordinates.

Discipline	*Organizations with Compression Problems*	*Organizations without Compression Problems*
Salaried Employees		
Engineering	.23 (Significance = .02)	.18 (Not significant)
Business/accounting	.22 (Significance = .02)	.28 (Significance = .02)
Sales/marketing	.40 (Significance = .01)	–.04 (Not significant)
Production	.34 (Significance = .01)	.19 (Not significant)
Data processing	.18 (Not significant)	.32 (Significance = .02)
Hourly Employees		
Production	.44 (Significance = .01)	.46 (Significance = .01)
Maintenance	.31 (Significance = .01)	.46 (Significance = .01)
Shipping/receiving	.43 (Significance = .01)	.35 (Significance = .01)

*Pearson r

Again, we may be looking at some very subjective responses. If the pay differentials provided for in the organization's policy are not perceived as adequate, the compensation director might report that a compression problem exists—even though actual pay differentials exceed the policy levels. In companies without compression problems, actual earnings differentials exceed policy levels by even wider margins.

For salaried employees, organizations reporting compression problems are more likely to have their actual earnings differences conform closely with their policy guidelines. (As usual, data processing is a notable exception.) For hourly employees, organizations with and without compression problems show strong and highly significant conformance to policy in the earnings relationship between supervisors and subordinates. However, we must remember that organizations without problems are conforming to higher earnings policy levels.

Question 6. If you have no salary adjustment program, is it because no problem exists, or because you have not addressed the problem? If you have not addressed the problem, why haven't you?

Some organizations with salary and wage compression problems said they had no programs for selective salary adjustments. Only 12 percent (73 organizations) responded to the "why." Among those who did, four major reasons were given (the list is not in the order of frequency):

1. The problem has not been serious enough to be recognized by management.
2. The problem is too complex, and there is a lack of data, manpower, and money to address it.
3. The problem is being studied now.
4. The problem is handled on a case-by-case basis.

Question 7. Are similar earnings intervals maintained for successive supervisory levels within your organization?[2]

We found no significant differences between companies with and without salary compression problems. Twenty percent maintain intervals between first and second levels only. Seventeen percent maintain intervals through the third level; 5 percent through more than three levels. Twelve percent said they maintained intervals among all management levels.

Question 8. How are earnings intervals maintained?

- General adjustments to all employees?
- General adjustments to all eligible employees?
- Selective adjustment (based on merit, etc.)?
- Automatic increases coinciding with labor contract agreements, college graduate offers, etc.?

Responses from companies with and without compensation problems differed in two of the four categories. Among companies *with* compression problems, 11 percent grant general adjustments to all employees, while in companies *without* problems, 18 percent grant general adjustments.

By far the most popular adjustment method was the selective adjustment based on merit. Sixty percent of companies *with* compression problems and 50 percent of those *without* use this method. Our prior data have suggested that the size of increases are more important than the frequency or manner of distributing them.

[2] At this point, the presentation departs from the numbering sequence used in the questionnaire. Several questions that did not provide data of any significance have been omitted. Individuals reading this report against the actual questionnaire will wish to note the departure.

5

COMPRESSION and MERIT PROBLEMS: WHERE DO THEY LEAD?

Our respondents see lower morale as the most serious consequence of a salary compression problem. In addition, many see compression among the white collar and professional ranks as opening the way for the possibility that unions will organize these employees. And the larger the company, the greater the concern that unions will try to move in.

In general, however, problems with merit programs have more serious ramifications than do specific issues of salary compression. As a group, our respondents indicated that the inability of their merit programs to keep pace with inflation was the more sensitive issue. Higher turnover and, again, lower morale, are the possible consequences.

This section of the questionnaire probed the severity of salary compression and merit administration problems by asking participants to use a four-point scale to rate the impact of these problems on morale, stability, working relationships, and the like. Also, the respondents rated the effect the continued presence of these problems might have in increasing the possibility of union involvement among the white collar and professional ranks.

Question 1. Do you feel that your company has a problem with salary compression?

Sixty-seven percent of the sample said "yes." These participants were asked to respond to the next question.

Question 2. Supervisor/subordinate relationships. If the interval between the two groups has been narrowing or is negative, what has been the effect upon your supervisors?

Respondents were asked to mark "none," "slight," "marked" or "substantial" for each of the following:

a. Higher turnover (supervisors leaving company for more pay).
b. Lower internal stability (increase in requests for transfers to higher paying jobs).
c. Lower morale (evidence of disillusionment, dissatisfaction).
d. Lower productivity.
e. Less effective supervisor/subordinate relationships (decline in warmth, cordiality, or support).

The responses were assigned values of 1 for "none," 2 for "slight," 3 for "marked" and 4 for "substantial," and a weighted average was obtained for each of the five choices.

Lower morale proved to be the most serious concern of those organizations with compression

Table 18. Perceptions of the consequences of salary compression: companies with compression problems.

Consequence	*Rank*	*Scale Values**
Low morale	1	2.5
Deteriorating supervisor–subordinate relationships	2	2.0
Internal instability	3	1.9
Lower productivity	4	1.8
Turnover	5	1.7

*1 None 2 Slight 3 Marked 4 Substantial

problems, as Table 18 shows. Less effective supervisor/subordinate relationships emerged as a "slight concern," with a weighted average of exactly 2. The other three possible concerns were considered less than slight, with averages less than 2.

Some readers may find it surprising that more concern was not expressed over the possible consequences of the compression problems. We might guess, however, that although supervisors are bothered by the problem, they probably will not let it greatly affect their working situation.

Perhaps the problems are viewed as transitory—something that the laws of supply and demand will eventually alleviate. Also, the suppressed earning trends of supervisors need not necessarily result in adversarial relationships with subordinates.

Question 3. Salaried merit increase system. If your pay-for-performance program has not kept the average employee "even" with inflation recently, what has been the effect?

The respondents used the same four-point scale described under Question 2 to rate the effect on turnover, internal stability, morale, productivity, and supervisor/subordinate relationships.

As Table 19 shows, companies with compression problems have greater concern over their merit increase systems than companies without com-

Table 19. Differences of perceptions of consequences of merit system not keeping employees even with inflation.

Consequence	*Scale Values* Organizations with Compression Problems*	*Scale Values* Organizations without Compression Problems*	*Rank*
Low morale	2.8	2.1	1
Turnover	2.11	1.82	2
Internal instability	2.1	1.7	3
Productivity	1.9	1.5	4
Deteriorating supervisor–subordinate relations	1.9	1.5	4

*1 None 2 Slight 3 Marked 4 Substantial

pression problems. Although organizations both with and without such problems rank the seriousness of the consequences in the same order, those with problems show more concern.

Notice that morale again emerges as the number one concern, paralleling the response to the questions on compression (Table 18). But the issue of employee turnover has moved from last place to second. This might be because inadequacies in the merit program are considered internal problems—controlled by conscious policy and administrative choice. On the other hand, compression is viewed as an external problem, perhaps beyond the control of the organization. Additionally, compression is not in and of itself financially punitive. In an inflationary environment, however, salary increases are bread-and-butter issues.

Whatever the reason, it is unmistakably clear that employees view the problems of merit increase systems as having greater gravity than compression problems. And why not? Salary compression is relative, transitory (hopefully), and certainly not punitive from the standpoint of spendable income. Although the merit increase problem may also be transitory, it is certainly absolute and punitive; most employees believe their buying power has diminished over the last eight years.

The merit increase situation has contributed greatly to today's problems of employee unrest and turnover. If these problems are not corrected, or if they do not correct themselves, they no doubt will continue to fester.

Question 4. In your judgment, what union action might occur as a result of the conditions discussed in Questions 1 and 2 above?

- Strong possibility of union organizing the white collar and/or professional employees.
- Increased possibility.
- Little or no possibility.
- Other _____

As we might expect, concern over attempts to organize employees was felt more strongly in organizations with compression problems. Three percent felt it was a strong possibility and 38 percent felt it was an increased possibility. On the other hand, in companies without compression problems, none felt a strong possibility of union organization and only 16 percent saw it as an increased possibility.

Cross-tabulations once again revealed the problem of the large organizations. The analysis shows that, in almost perfect rank order, the larger the organization the stronger the concern over attempts at union organization. The reverse, of course, was also true.

6

HOW THEY WOULD SOLVE THEIR COMPRESSION PROBLEMS

In attempting to deal with compression, many respondents supported the use of an in-house skill training program for high-demand classifications and the development of bonus programs that instantly reward outstanding performance or special effort. The participants indicated that their organizations were quite likely to adopt the first of these approaches. The second approach—the bonus program—received a much lower feasibility rating, however.

On the other hand, the respondents have no intention of reducing the caliber of the college-educated candidates who are recruited, nor do they see an elimination of the merit reward system in favor of a general increase or bonus program. Also, the idea of moving to fewer job classifications with broader rate ranges received very little support.

A finer analysis of the data reveals, however, that some organizations may be overlooking some promising solutions. Significantly more organizations without compression problems, for example, have already broadened profit sharing and bonus programs to include salaried personnel. Yet very few organizations with compression problems supported this idea.

NO EASY ANSWERS

This section of the questionnaire presented a list of 16 remedies or solutions to the compression problem. See Table 20. The respondents first indicated their personal support for each item by checking one of three boxes: "none," "moderate," or "strong." Next, the respondents judged the feasibility of each idea by indicating the likelihood of their organization adopting that particular course of action. Here, the questionnaire used checkboxes labeled: "likely to adopt," "not likely," and "already have." Table 21 shows the results.

The responses were ranked three times: (1) for the total sample, (2) for organizations with problems, and (3) for organizations without problems. When we look at the ranking for the total sample, these concepts received the strongest support.

- Develop or expand in-house skill training, especially in the high-demand classifications.
- Establish (or use) a bonus program that instantly rewards good performance or special effort.

Table 20. Support for solutions to salary administration problems.

Solutions	*Organizations with Compression*		*Organizations without Compression*	
	No Support	*Moderate to Strong Support*	*No Support*	*Moderate to Strong Support*
1. Grant periodic increases for all salaried classifications	47.7	48.0	56.3*	35.3*
2. Grant general increases for affected job classes only	45.0	49.9	47.4	42.1*
3. Establish or broaden profit sharing to include all salaried supervision	40.1	47.9	33.7*	49.5
4. Institute (or broaden current) program to promote college relations and enhance recruiting success	20.4	69.4	26.8*	58.9*
5. Forgo recruiting at more prestigious schools	53.1	35.0	51.6	28.4*
6. Recruit candidates of lesser academic standing	68.1	23.1	64.2	19.5
7. Develop or expand in-house skill training, especially in high-demand skill areas	5.0	70.9	5.1	76.6
8. Expand use of contract houses, consultants to supplement workforce in high-demand skill areas	45.3	49.6	42.1	47.4
9. Create fewer job classifications and broaden their rate ranges	65.0	30.4	60.0	29.5
10. Establish or use a bonus program that instantly rewards good performance or special effort	28.2	67.4	30.5	60.0*
11. Eliminate merit system in favor of a general increase and bonus program	85.2	11.4	82.1	10.0
12. Adopt harder line in union negotiations to hold down size of wage increases	13.9	54.5	17.9	39.5*
13. Modify or eliminate COLA clauses	20.0	46.0	23.7	36.8*
14. Negotiate (or establish) fewer wage levels among hourly unit employees	44.3	36.0	37.9	33.7
15. Grant additional compensation for overtime hours worked to:				
First- and second-line supervisors	20.7	70.6*	35.3*	50.5*
All supervisors up to middle management	42.1	47.7*	49.5*	34.8*

*The difference between the percentages is statistically significant at the .05 level or better.

Table 21. Likelihood that your organization will adopt the proposed solution.

Solutions	*Organizations with Compression*			*Organizations without Compression*		
	Will Adopt	*Will Not Adopt*	*Already Have*	*Will Adopt*	*Will Not Adopt*	*Already Have*
1. Grant periodic increases for all salaried classifications	6.1	69.3	20.0	4.7	67.4	17.4
2. Grant general increases for affected job classes only	14.4	58.9	20.9	15.3	54.2	16.3
3. Establish or broaden profit sharing to include all salaried supervision	9.2	64.7	16.8	8.4	54.7*	22.6*
4. Institute (or broaden current) program to promote college relations and enhance recruiting success	26.3	25.5	38.9	24.7	33.7*	25.3*
5. Forgo recruiting at more prestigious schools	12.7	56.2	16.8	16.3	49.5*	10.5*
6. Recruit candidates of lesser academic standing	11.9	65.0	10.7	15.3	58.9*	6.3*
7. Develop or expand in-house skill training, especially in high-demand skill areas	42.3	13.1	38.9	33.2*	15.3	41.6
8. Expand use of contract houses, consultants to supplement workforce in high-demand skill areas	18.7	46.2	29.0	15.8	44.7	25.3
9. Create fewer job classifications and broaden their rate ranges	12.9	74.5	5.6	12.1	67.4*	7.4
10. Establish or use a bonus program that instantly rewards good performance or special effort	14.4	70.1	9.5	16.8	58.4*	13.2*
11. Eliminate merit system in favor of a general increase and bonus program	4.6	89.3	1.0	4.7	82.6*	1.1
12. Adopt harder line in union negotiations to hold down size of wage increases	24.8	24.3	17.0	21.1	20.0	11.6*
13. Modify or eliminate COLA clauses	18.7	28.5	16.8	12.6*	27.9	15.8
14. Negotiate (or establish) fewer wage levels among hourly unit employees	16.3	52.6	9.5	16.8	44.7*	7.4

Table 21 (continued)

15. Grant additional compensation for overtime hours worked to:						
First- and second-line supervisors	15.3	37.7	36.5	13.2	45.3*	23.7*
All supervisors up to middle management	12.7	61.8	13.9	8.9	61.6	10.5

*The differences between the percentages are statistically significant at the .05 level or better.

- Institute a program (or broaden current program) to promote college relations and enhance recruiting success.
- Grant additional compensation for overtime hours worked to first- and second-line supervisors.

Respondents representing organizations *without* compression problems indicated the following as their most popular *practices*:

- Develop or expand in-house skill training, especially in the high-demand classifications.
- Expand the use of contract houses and consultants to supplement the workforce in high-demand skill areas.
- Establish or broaden profit sharing (bonus) to include all salaried supervision.
- Institute a program (or broaden current program) to promote college relations and enhance recruiting success.

Solutions favored the least by all respondents were these:

- Eliminate the merit reward system altogether in favor of a general increase and bonus program.
- Recruit candidates of lesser academic standing.
- Create fewer job classifications and broaden their rate ranges.
- Forgo recruiting at more prestigious schools.

DETAILED REACTIONS

Here are the 16 suggested solutions and an analysis of how the respondents felt about each.

1. *Grant periodic general increases for all salaried classifications.* This was not a popular solution, even though some organizations with compression problems practice it. There is no significant difference between organizations with and without compression problems who report having such programs. It is unlikely that companies would adopt such a solution if it were proposed.

2. *Grant general increases for affected job classes only.* This solution gained moderately more support. But reportedly, there is little likelihood that many will adopt this as a solution. Among companies without compression problems, 16.3 percent already have such programs, compared with 20.9 percent of companies that do have problems.

3. *Establish or broaden profit sharing programs (or bonus programs) to include all salaried supervision.* This solution received reasonably good support, but respondents felt that their companies would probably not adopt it. However, 22.6 percent of the organizations without compression problems already have such programs. For organizations with problems, the number dips to 16.8 percent. This is a significant finding, one that suggests that the broader

approach to profit sharing and bonus programs merits serious consideration as a solution to compression.

4. *Institute program (or broaden current program) to promote college relations and enhance recruiting success.* Both classes of organization gave strong support to this method. Further, many organizations seem moderately willing to adopt such solutions. However, more organizations with compression problems already have this program in place than do organizations without problems. This gives rise to speculation that it is at best only a partial solution, if one at all.

5. *Forgo recruiting at more prestigious schools.* Both classes or organization emphatically rejected this solution. However, a number of organizations have already stopped recruiting at the more prestigious schools: 16.8 percent of those with compression problems and 10.5 percent of those without.

6. *Recruit candidates of lesser academic standing.* The responses received here parallel those for Question 5. Most survey participants strongly rejected this approach. But again we note that a number of organizations have already lowered their standards: 10.7 percent of those with problems and 6.3 percent of those without.

7. *Develop or expand in-house skill training, especially in high-demand classifications.* This was a very popular solution. Forty-two percent with compression problems intend to institute such programs. Almost 40 percent of the entire sample reported such programs already in place. This finding clearly confirms what many observers have forecast: Training and development in U.S. organizations will continue to grow, perhaps at a faster pace than in the past.

8. *Expand the use of contract houses and consultants to supplement workforce in high-demand skill areas.* In the total sample, 27 percent currently employ this solution and less than 20 percent of the remaining group are likely to develop such programs in the future.

9. *Create fewer job classifications and broaden their rate ranges.* A relatively unpopular solution. Less than 8 percent reported having such programs and only 12 percent contemplate them. There were no significant differences between organizations with and without compression problems.

10. *Establish (or use) a bonus program that instantly rewards good performance or special effort.* This was one of the most popular solutions. More than 60 percent favored it. Yet it appears that only 15 percent of the organizations would adopt such a solution. Nine and one-half percent with compression problems already have such a program, versus 13.2 percent without problems. This is a significant difference, one that might indicate that the practice may help avoid compression problems.

11. *Eliminate merit award system altogether in favor of general increase and bonus program.* This was the most unpopular solution. Almost 85 percent of the sample rejected it. Only six organizations reported such a program in use.

12. *Adopt a harder line in union negotiations to hold down the size of wage increases.* This was a very popular solution, especially with organizations with compression problems. Over 54 percent indicated support of this program and most felt that their companies would support such an endeavor in negotiations. More companies with compression problems have installed such programs than have companies without problems: 17.0 versus 11.6 percent.

13. *Modify or eliminate COLA clauses.* We were interested to see a reasonable amount of support for such a solution. But it is unlikely that it will receive widespread adoption, since many companies apparently anticipate union resistance. Yet more than 16 percent of the respondents reported success in removing COLA clauses from

union contracts, and a number of others intend to try this strategy.

14. *Negotiate (or establish) fewer wage levels among hourly unit employees.* More than one-third of our sample supported such a solution, but only 16 percent felt that their organizations were likely to adopt it. Here again, union resistance may defeat many efforts.

15a. *Grant additional compensation for overtime hours worked to first- and second-line supervisors.* Thirty-six and one-half percent of organizations with compression problems already have such programs, compared with 23.7 percent without such problems. And 71 percent of the remaining organizations support this as a solution. However, it was felt that only 15 percent of the organizations with problems would adopt such solutions, a frustrating situation indeed.

15b. *Grant additional compensation for overtime hours worked to all supervisors up to middle management.* Organizations with compression problems were almost evenly divided—42 percent supporting the measure and 48 percent not supporting it. Only a few said they would adopt this solution. Yet 14 percent with compression problems and 11 percent without already have such a program.

SOME WRITE-INS

A few companies suggested their own solutions. Here are the two that were mentioned most often:

- Broaden merit award guidelines so that differences in contribution to the organization can be more readily recognized and compensated at a higher level.
- Expand profit sharing programs so supervisors can share more directly in the organizations' success.

EPILOGUE

Here our research ends and more subjective speculation begins. On the one hand, the compression and merit administration problems of the past decade might be viewed as a temporary disruption of the otherwise orderly world Adam Smith described over 200 years ago. After all, the survey data suggested that the differentials are stabilizing, perhaps widening. On the other hand, the easing of the problem might be the interruption—a temporary halt in an otherwise orderly trend toward greater compression. Certainly, the spread of earnings 30, 40, or 50 years ago was much greater than it is now.

Perhaps there are no broadly viable or practical solutions, especially to the merit increase/inflation problem. Perhaps many organizations will continue to watch helplessly as their employees' real income erodes further and further, the result of continued high levels of inflation. Or perhaps this problem, too, will simply go away in time.

If the problem doesn't go away, and inflation again escalates to the painfully high levels that marked the 1970s, we can expect increased restraints on merit budgets. Further compression may well occur between supervisors' earnings and their hourly and college-graduate subordinates. In this case, the present survey data represent a kind of snapshot: one frozen moment in the inexorable dawning of the age of egalitarianism.